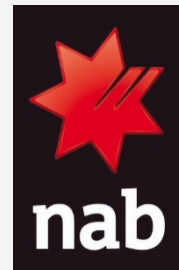


EMBARGOED UNTIL: 11:30AM AEDT, 6 FEBRUARY 2020

# NAB QUARTERLY BUSINESS SURVEY 2019 Q4

## CONDITIONS APPEAR TO HAVE BOTTOMED BUT CONFIDENCE REMAINS WEAK



### NAB Australian Economics

The easing in business conditions since mid-2018 appears to have bottomed with conditions lifting for the second consecutive quarter. However, conditions remain subdued and significantly below their recent peak. This suggests that activity in the business sector has slowed and that the outlook for both capex and investment is at risk. Forward looking indicators were generally weaker and overall confidence remains low – suggesting that while we think conditions have bottomed, the business sector’s own perspective is that they are unlikely to see a material improvement in the near term. Overall the survey continues to point to muted pressure in end-prices but that growth in costs continues to track at a higher rate. That said, prices growth in the retail sector appears to have recovered slightly in the last two quarters – though it remains soft overall. Slow growth in wages has been a significant driver of weak inflation and the survey suggests that while employment demand has remained robust, this is expected to ease somewhat. The difficulty finding suitable labour remains elevated, but well below the levels seen in the leadup to the GFC which coincided with significantly stronger wage growth.

## HIGHLIGHTS

- The Quarterly NAB Business Survey provides a more in-depth probe into the conditions facing Australian business than the monthly survey, and also examines additional information about how firms perceive the outlook for their industries.
- **Business conditions** (an average of trading conditions/sales, profitability and employment) rose 2pts to +4 index points. Conditions increased in all industries, except mining and wholesale where each saw a decline of 2pts. Overall, conditions remain most favourable in the services sectors, particularly those related to business. By state, SA and Vic saw significant improvements in conditions which were partially offset by decreases in Tas, QLD and WA; NSW was flat in the quarter. Conditions are most favourable in SA despite the strong decline in confidence in the quarter.
- **Business confidence** was unchanged at -1 index points in Q4. Confidence declined in finance, business & property services, transport & utilities, while mining and wholesale also edged lower. These declines were offset by a notable increase in construction and retail, while recreation & personal services also rose. Confidence was sharply lower in SA and also declined in Vic and WA, while NSW, Tas and QLD saw increases. Confidence remains negative across most states, with the exception of WA (+6pts) and NSW (0pts). Construction and retail are the most optimistic industries, with all others now at or below 0 pts.
- **Leading indicators** softened somewhat in the quarter, with expected business conditions declining at the 3 and 12-month horizons. Expected capex in 12 months was flat, while capacity utilisation declined.
- **Labour indicators** were mixed in the quarter. The employment index was unchanged and remains above average. However, expectations at the 3-month horizon declined, while expectations a year out also edged lower. The difficulty finding suitable labour was flat in the quarter and is still elevated but below pre-GFC levels where unemployment was significantly lower.
- Survey measures of **inflation pressures remain modest**. Final products price growth was flat and remains weak – though price pressures in the retail sector continue to build with growth rising further in the quarter. Labour and input costs growth edged lower but continue to outpace end-prices.
- Surveyed conditions in **construction industry sub-sectors** saw a rise in the residential, engineering and non-residential components, while construction services eased. Conditions remain most favourable for engineering, while residential is also now relatively favourable after a notable improvement over the past two quarters. Conditions are weakest in the non-residential sector.

TABLE 1: KEY QUARTERLY BUSINESS STATISTICS

	2019q2	2019q3	2019q4		2019q2	2019q3	2019q4
	<i>Net balance</i>				<i>Net balance</i>		
Business confidence	5	-1	-1	Trading	2	4	6
Business conditions				Profitability	-4	-2	3
Current	1	2	4	Employment	6	5	5
Next 3 months	12	10	9	Next 3 months	6	11	7
Next 12 months	23	20	16	Next 12 months	19	16	15
Capex plans (next 12)	24	21	21	Forward orders	-3	-2	0
	<i>% change</i>			Stocks	1	2	2
Labour costs	0.7	0.7	0.6	Exports	0	0	0
Purchase costs	0.5	0.5	0.4				
Final products prices	0.2	0.2	0.2	Retail prices (% change)	0.0	0.1	0.3
				Capacity utilisation rate (%)	81.3	82.6	81.4

All data seasonally adjusted, except purchase costs and exports. This survey was conducted from 19 November to 13 December, covering over 900 firms across the non-farm business sector.

Next release: 23 April 2020.

Contacts: Alan Oster – Chief Economist, Gareth Spence – Senior Economist

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# QUARTERLY FOCUS: INVESTMENT INDICATORS

## Hurdle Rates and Capex

- Business investment has fallen to around 11% of GDP – its lowest level since the early 1990s. The recent decline in business investment’s share of output has been driven by the unwinding of the mining boom. While investment in the mining sector has declined to more normal levels, there has been very little growth in the non-mining sector.
- An oft cited reason for the sluggish response to lower interest rates is the use of high hurdle rates by business when making investment decisions. It is argued that that businesses have been slow to reassess the key target rate for project and expansion returns, despite the trend in the external environment to a lower inflation, lower return world. As a result, businesses are viewed to have passed on otherwise profitable investments which would lead to greater employment and productivity growth.
- Since 2015 the NAB Quarterly business survey has included a question on hurdle rates. Over this time, hurdle rates in Australia have broadly hovered around 13.5%. While appearing to have fallen in early 2019, two consecutive quarterly increases have seen hurdle rates return to their average level in Q4. This suggests that in aggregate hurdle rates have been indeed been ‘sticky’, despite a lower growth (and low rate) environment.
- At the industry level a similar picture is evident. While only a relatively short history of data is available, hurdle rates have remained relatively constant across industries in year-average terms between 2016 and 2019.
- Two exceptions are construction (which is around 3% higher) and rec & personal services which is around 3% lower. Hurdle rates in retail and wholesale are marginally lower.
- Noting the limitations on historical data, it also appears that at present the capital-intensive industries – manufacturing and construction and to a lesser extent mining - have slightly higher hurdle rates. Broadly, however, there does not appear to be a significant variation (or trend) across industries.
- Both expected and actual capex have declined to around average alongside the deterioration in reported conditions. This has coincided with sluggish consumer demand and a softening in capacity utilisation. It is likely that ‘sticky’ hurdle rates have contributed to some restraint by business, though they may be a proxy for higher international and domestic uncertainty – also reflected in lower confidence.

CHART 1: INVESTMENT HURDLE RATES (%)

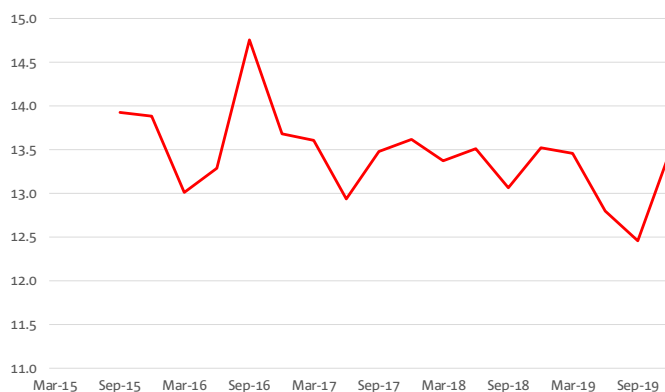


CHART 2: HURDLE RATES BY INDUSTRY (%)

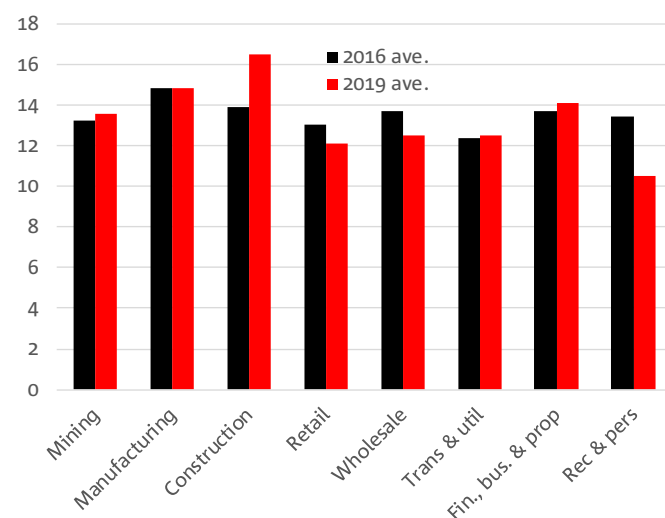
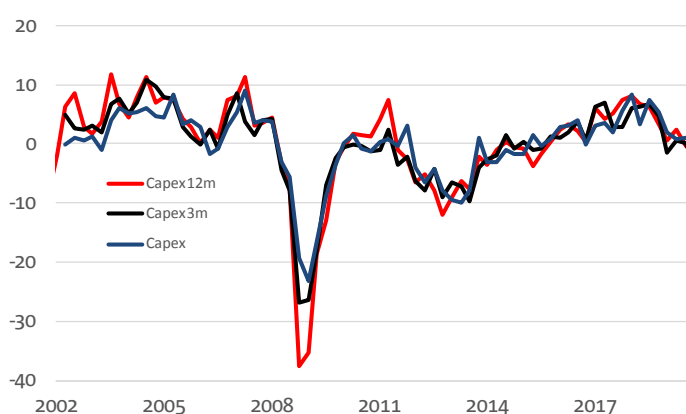


CHART 3: ACTUAL AND EXPECTED CAPEX (NET BAL., DEV. FROM AVE.)



# NAB QUARTERLY BUSINESS SURVEY – CONDITIONS AND CONFIDENCE

CHART 4: BUSINESS CONDITIONS & CONFIDENCE (NET BALANCE S.A.)

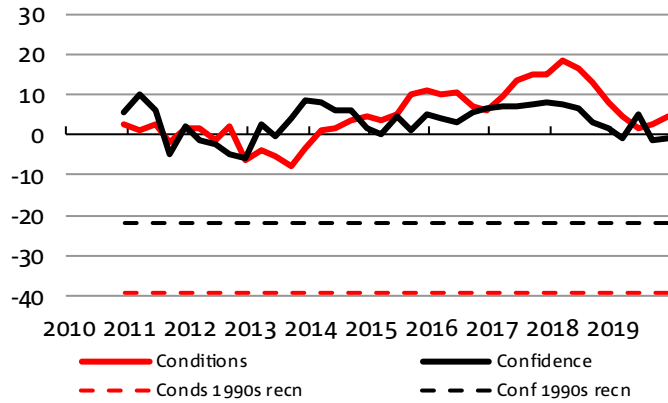
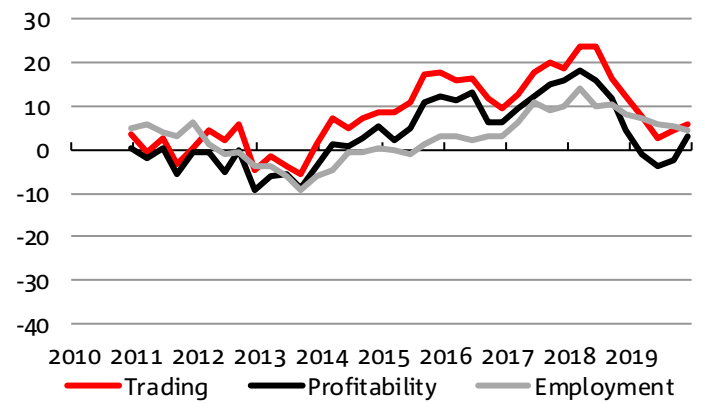


CHART 5: BUSINESS CONDITIONS COMPONENTS (NET BALANCE, S.A.)



## DRIVERS OF BUSINESS CONFIDENCE

CHART 6: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE

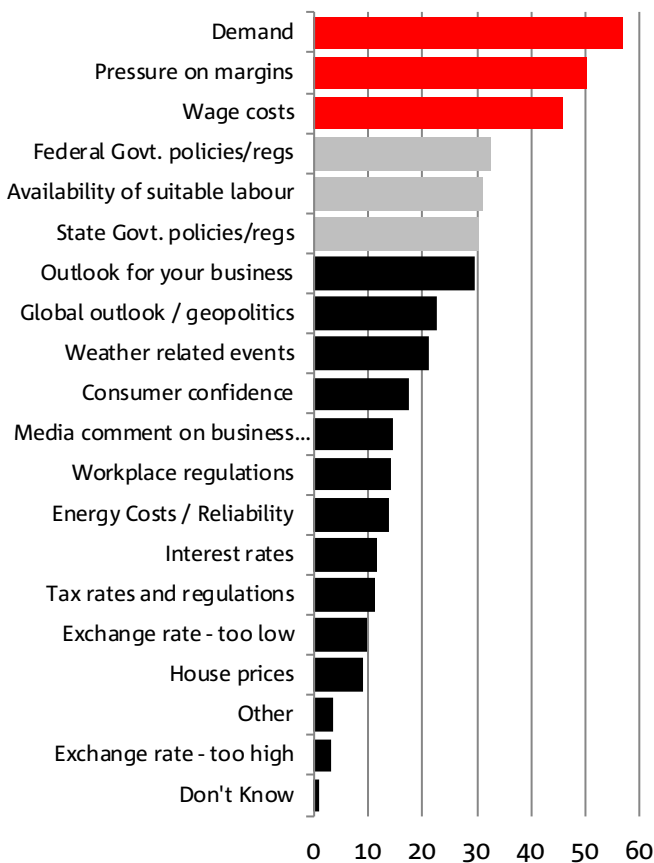


CHART 7: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE – DETERIORATING CONDITIONS

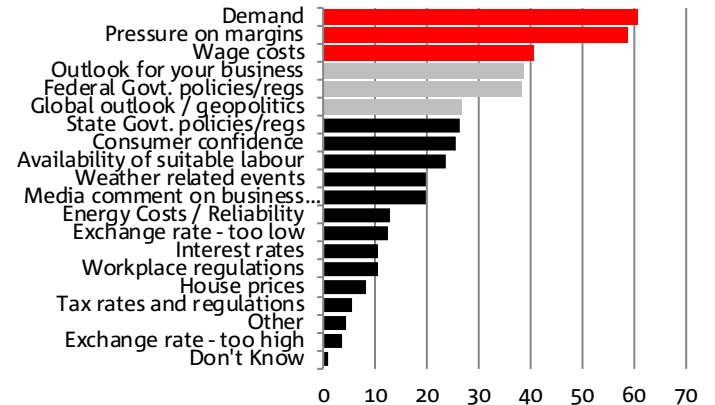
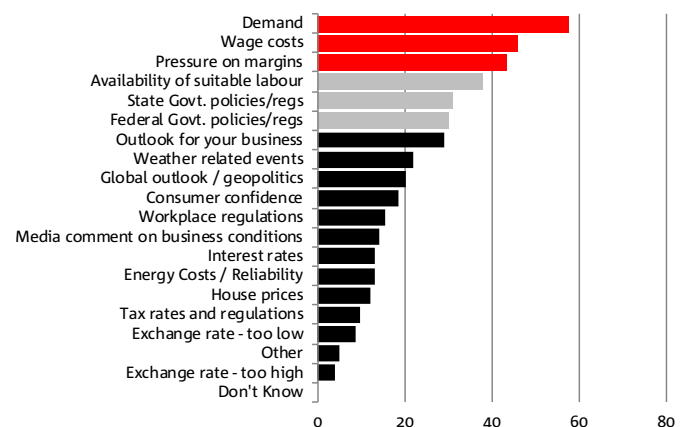
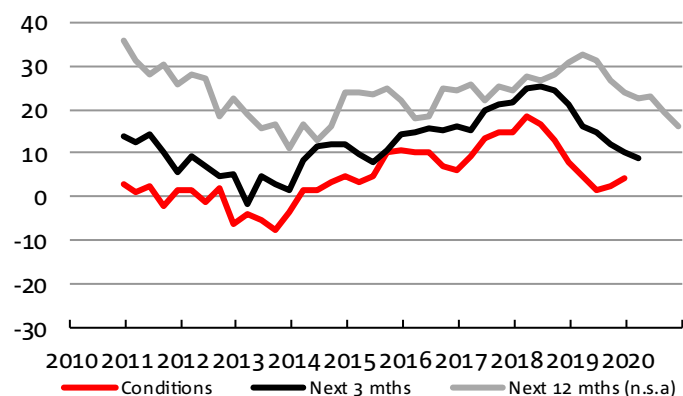


CHART 8: MOST INFLUENTIAL ISSUES AFFECTING BUSINESS CONFIDENCE – IMPROVING CONDITIONS

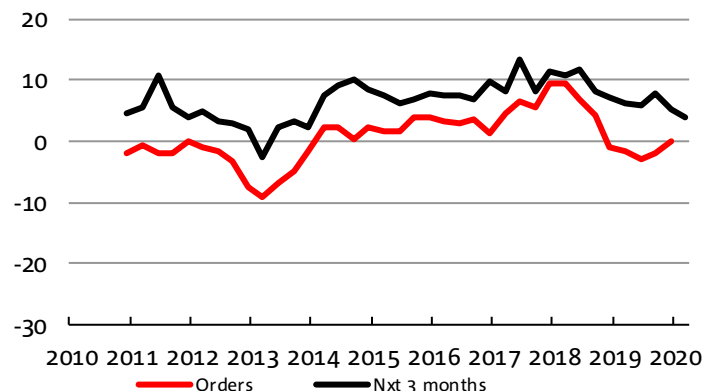


# NAB QUARTERLY BUSINESS SURVEY – LEADING INDICATORS & INVESTMENT

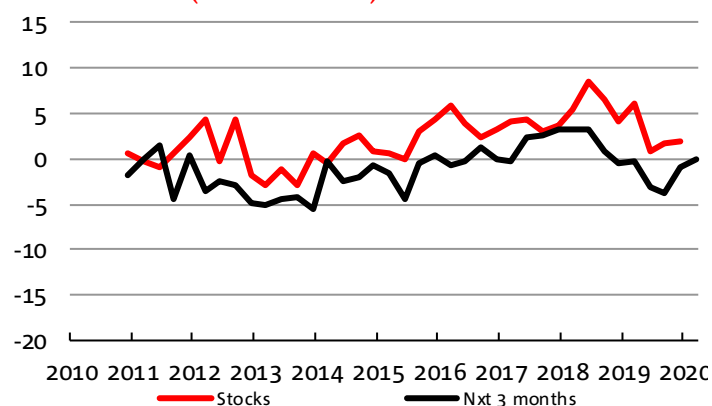
**CHART 9: BUSINESS CONDITIONS AND EXPECTATIONS (NET BALANCE)**



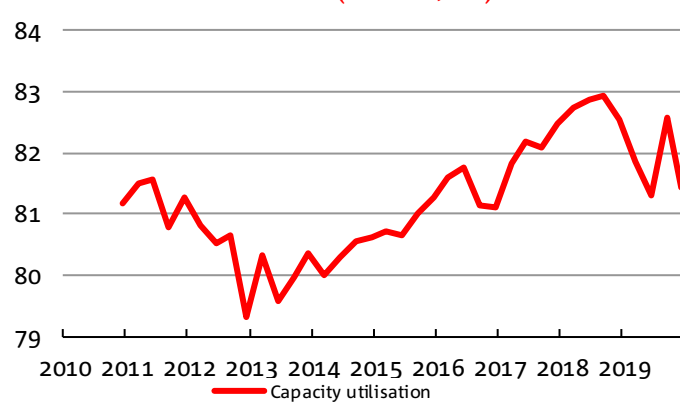
**CHART 10: FORWARD ORDERS & EXPECTATIONS (NET BALANCE S.A.)**



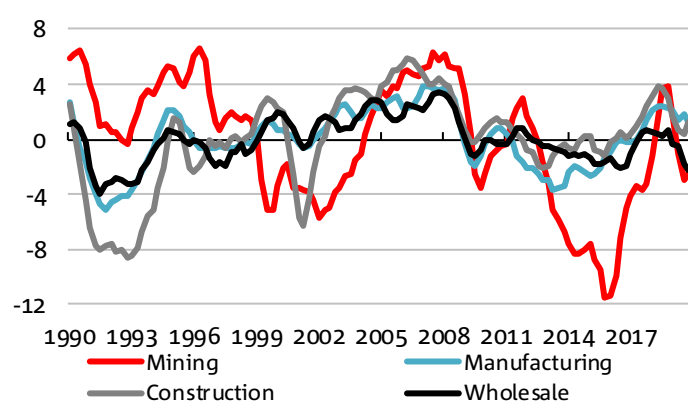
**CHART 11: STOCKS (NET BALANCE S.A.)**



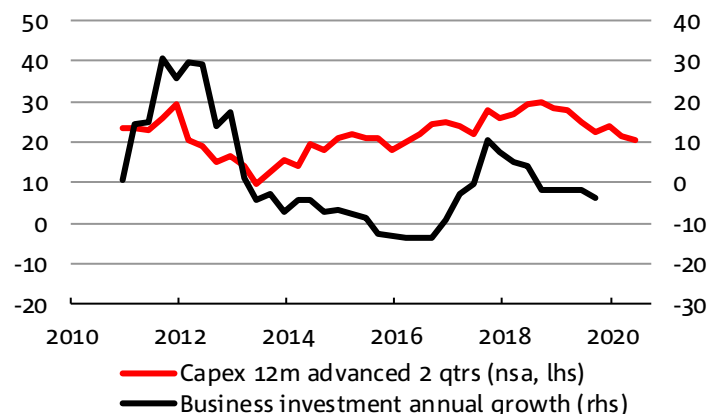
**CHART 12: CAPACITY UTILISATION (PER CENT, S.A.)**



**CHART 13: CAPACITY UTILISATION (PPT DEVIATION FROM LONG-RUN AVERAGE, 3 QTR MA)**

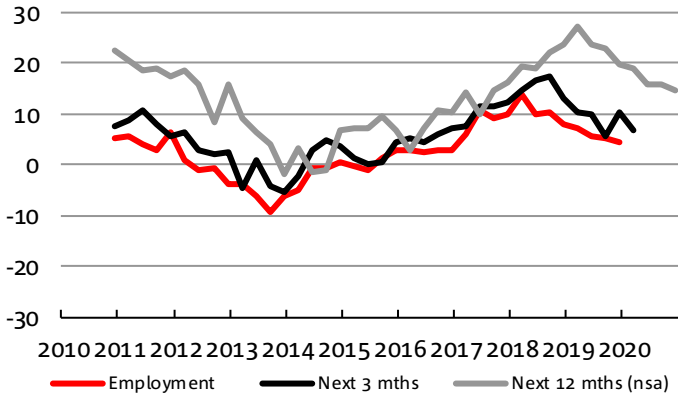


**CHART 14: BUSINESS INVESTMENT & CAPEX PLANS**

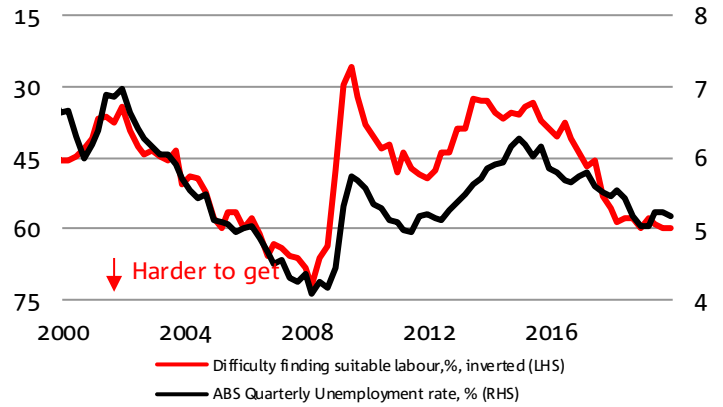


# NAB QUARTERLY BUSINESS SURVEY – LABOUR MARKET

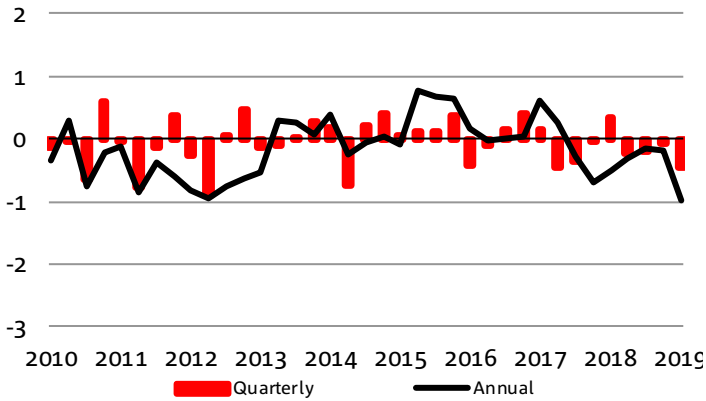
**CHART 15: EMPLOYMENT & EXPECTATIONS (NET BALANCE)**



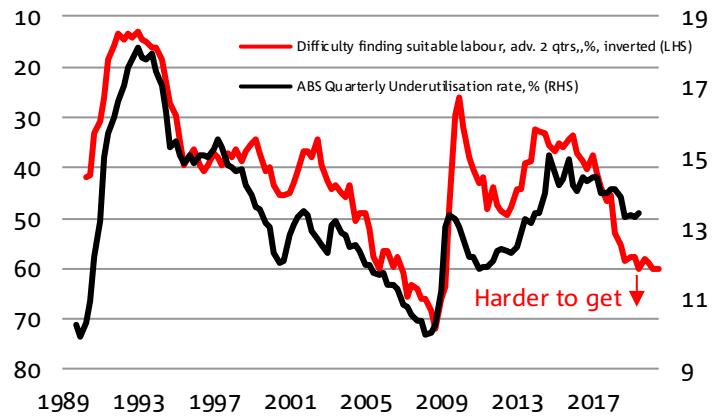
**CHART 16: UNEMPLOYMENT RATE & LABOUR CONSTRAINTS**



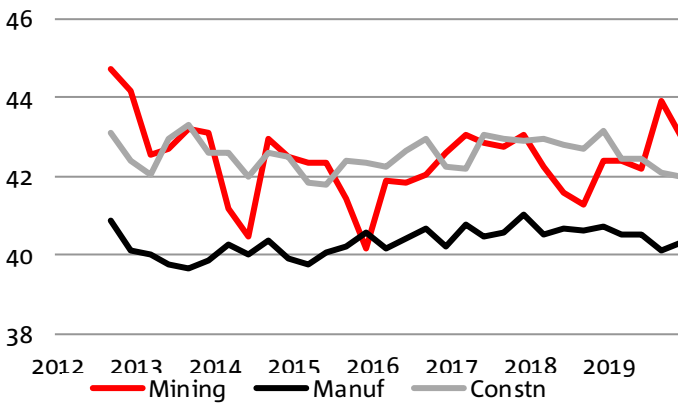
**CHART 17: CHANGE IN AVERAGE HOURS WORKED (NSA)**



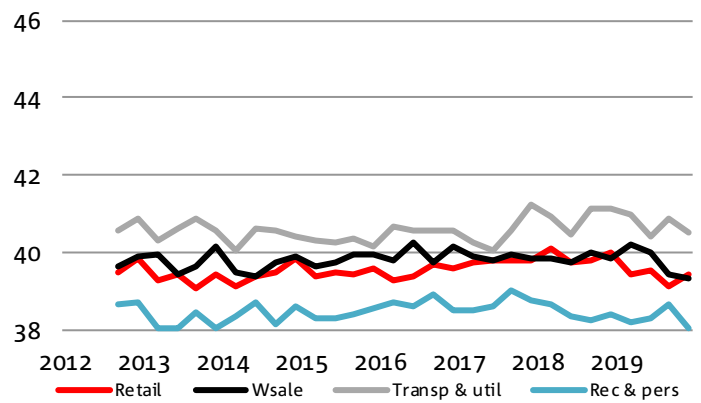
**CHART 18: UNDERUTILISATION RATE & LABOUR CONSTRAINTS**



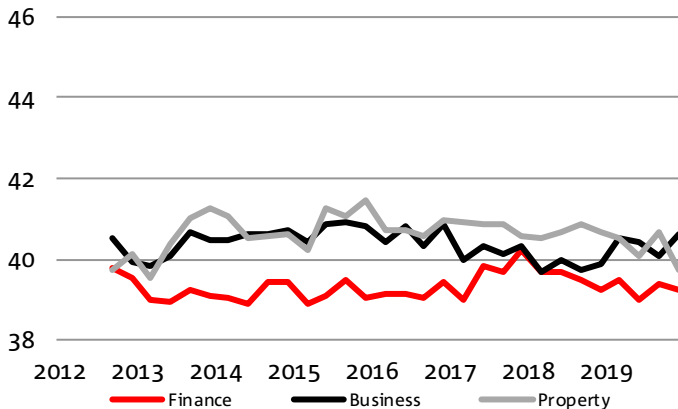
**CHART 19: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)**



**CHART 20: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)**



**CHART 21: AVERAGE WEEKLY HOURS WORKED BY INDUSTRY (NSA)**



# NAB QUARTERLY BUSINESS SURVEY - MAJOR CONSTRAINTS ON FIRM OUTPUT

CHART 22: MAIN CONSTRAINTS ON FIRM OUTPUT

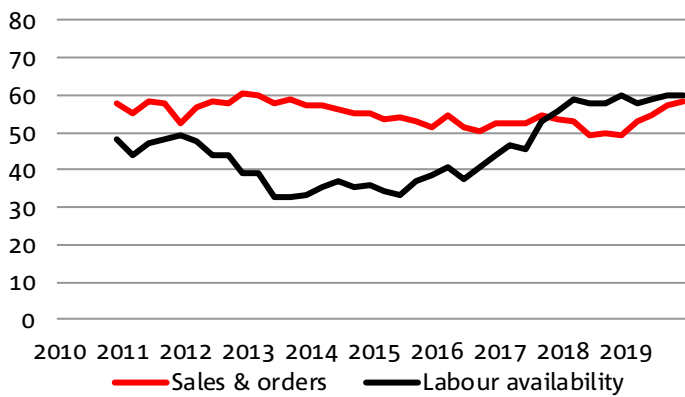
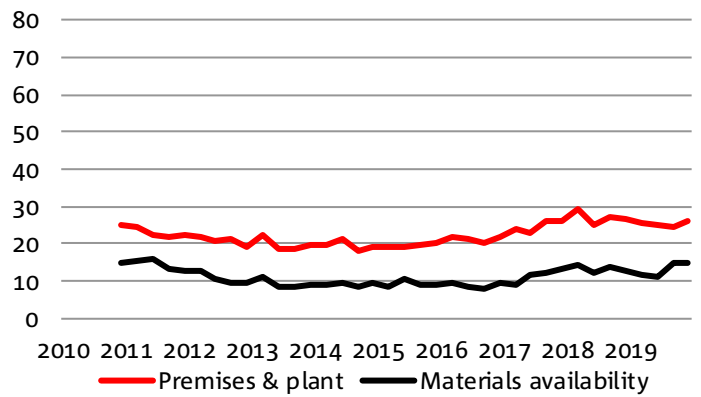


CHART 23: MAIN CONSTRAINTS ON FIRM OUTPUT



## INFLATION PRESSURES

CHART 24: PRICES (% ANN, SA)

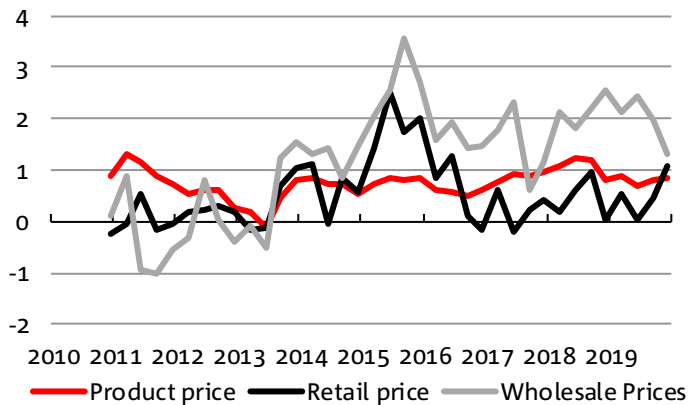
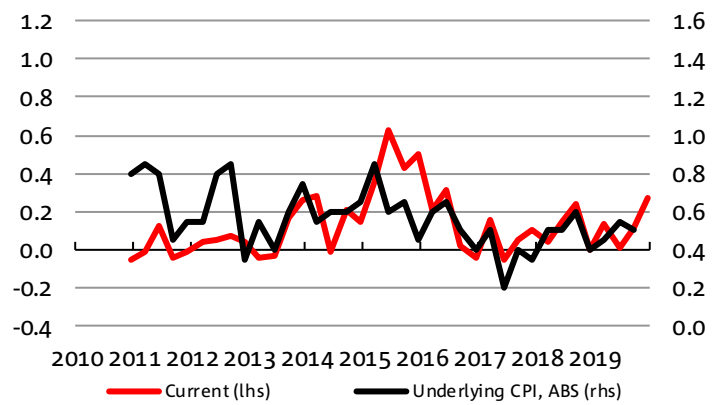


CHART 25: RETAIL PRICES (% P.Q.)



## LABOUR COSTS (DETAILS)

CHART 26: LABOUR COSTS & COMPENSATION OF EMPLOYEES

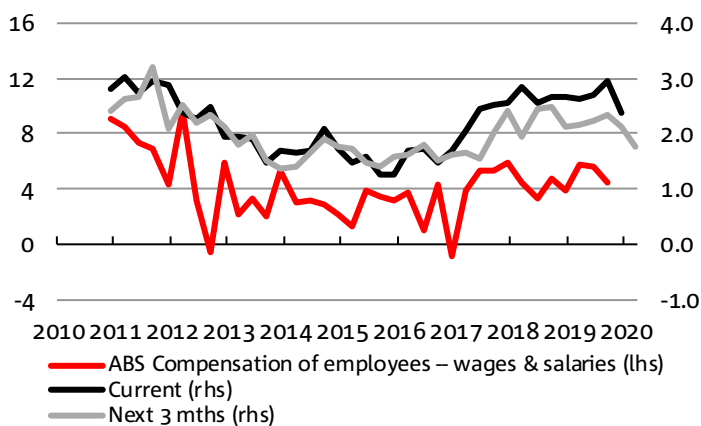
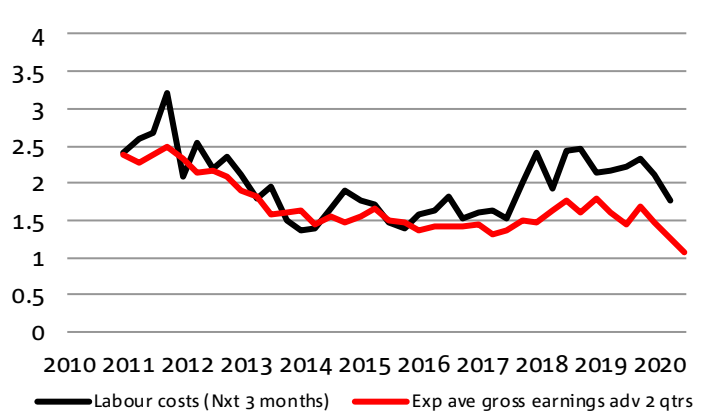
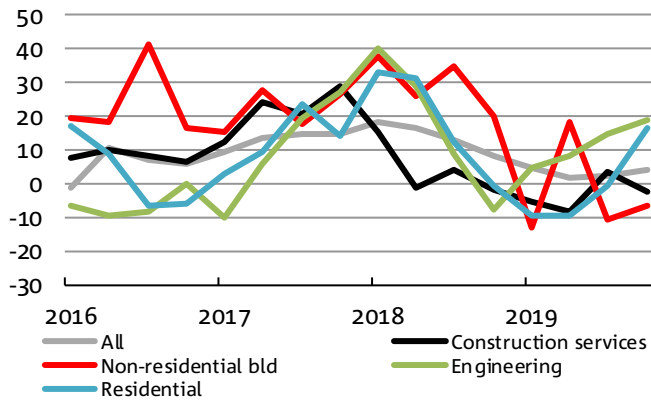


CHART 27: EXPECTED LABOUR COSTS (% ANN)

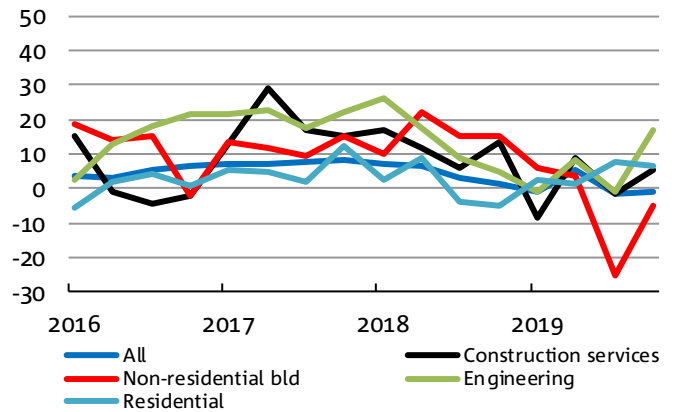


# NAB QUARTERLY BUSINESS SURVEY – CONSTRUCTION INDUSTRY DETAILS

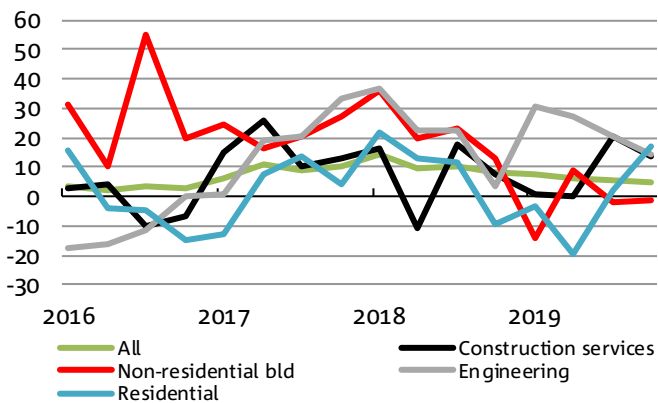
**CHART 28: BUSINESS CONDITIONS BY INDUSTRY**



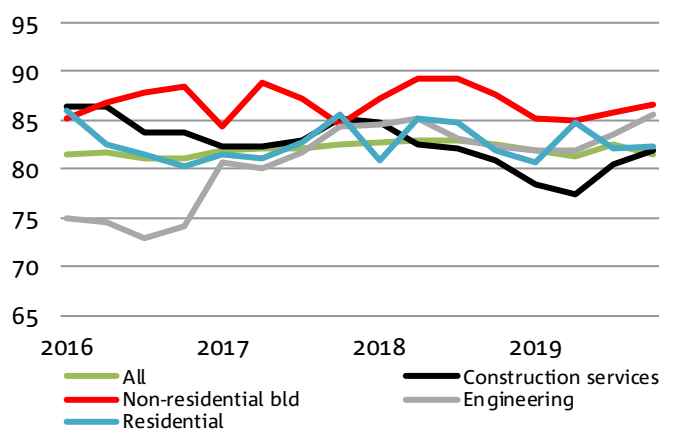
**CHART 29: BUSINESS CONFIDENCE BY INDUSTRY**



**CHART 30: EMPLOYMENT CONDITIONS BY INDUSTRY**



**CHART 31: CAPACITY UTILISATION BY INDUSTRY**

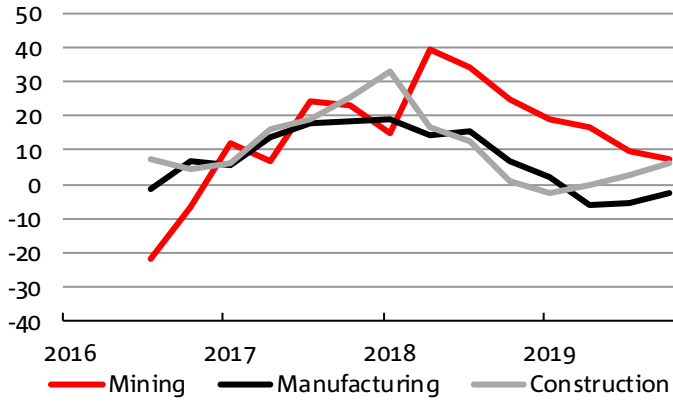


## FINANCIAL MARKET EXPECTATIONS

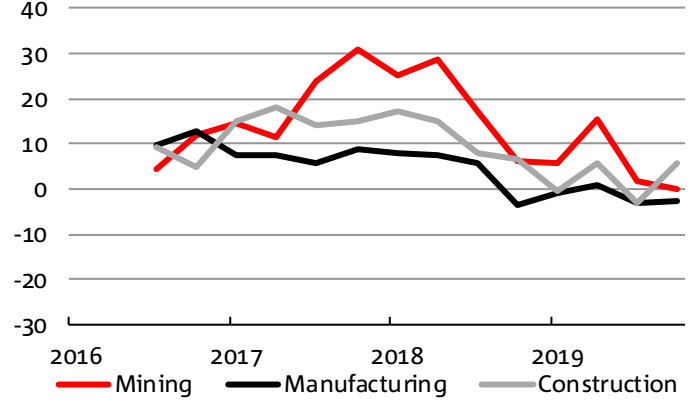
- The survey was conducted in the month following the 3<sup>rd</sup> RBA Cash rate cut for the year – which saw the cash rate fall to a new record low of 0.75%. At the time, around 50% of businesses surveyed in the December quarter expected interest rates to remain unchanged over the next year, while the number expecting further cuts was close to 40%. On average, businesses priced in around a further 1½ cuts to short term rates over the next 12 months. NAB Economics forecasts that growth will remain soft in 2020, with the ongoing dynamics of a weak household sector and only modest investment growth somewhat offset by strong growth in public spending and a continued rise in exports. Soft growth will see the labour market deteriorate somewhat, with employment growth slowing and the unemployment rising to around 5.5%. This will see ongoing restraint in wage growth and consequently only a slow pickup in inflation towards the RBAs target band of 2-3%. Therefore, we think policy makers can do more to support growth and the labour market and expect a further two cuts this year, with the risk of a move to unconventional policy should the labour market deteriorate more than we forecast.
- Exchange rate expectations in the Survey (6-months-ahead) were similar to the Q3 result at US68.61 cents. Expectations have tracked movements in the dollar over the year or so and current expectations largely reflect the prevailing level at the time the survey was conducted.

# NAB QUARTERLY BUSINESS SURVEY – MORE DETAILS ON INDUSTRY

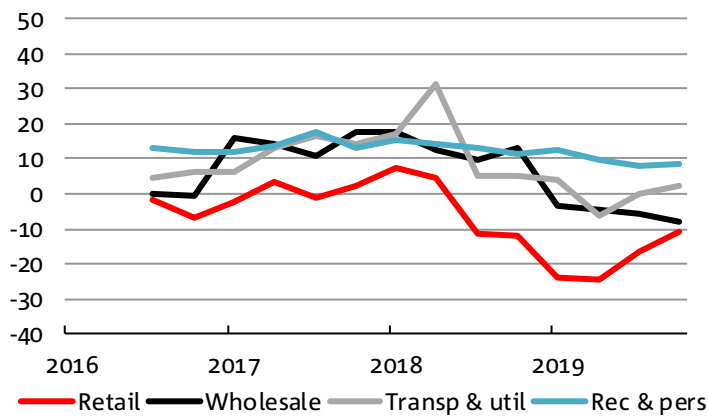
**CHART 32: BUSINESS CONDITIONS BY INDUSTRY**



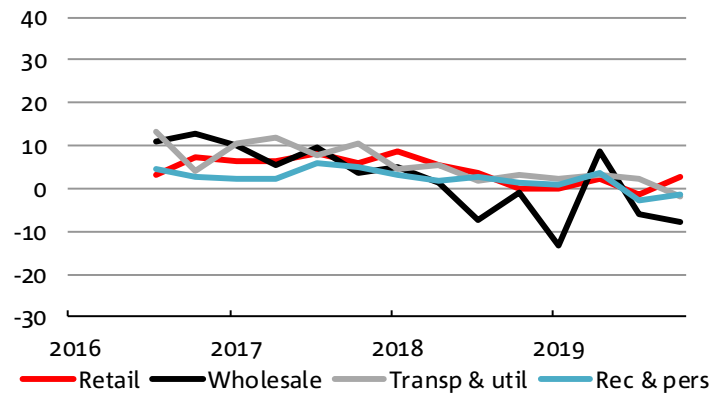
**CHART 35: BUSINESS CONFIDENCE BY INDUSTRY**



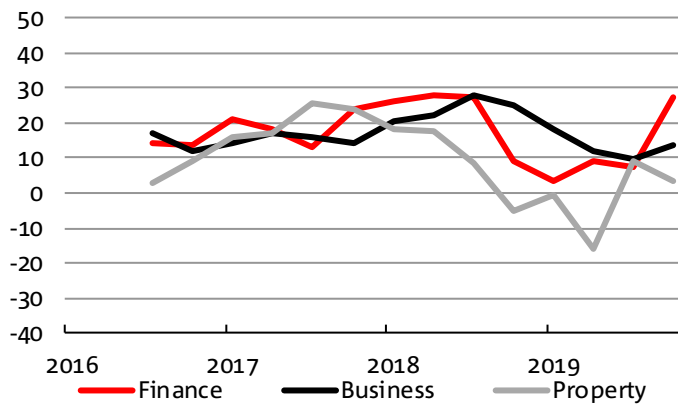
**CHART 33: BUSINESS CONDITIONS BY INDUSTRY**



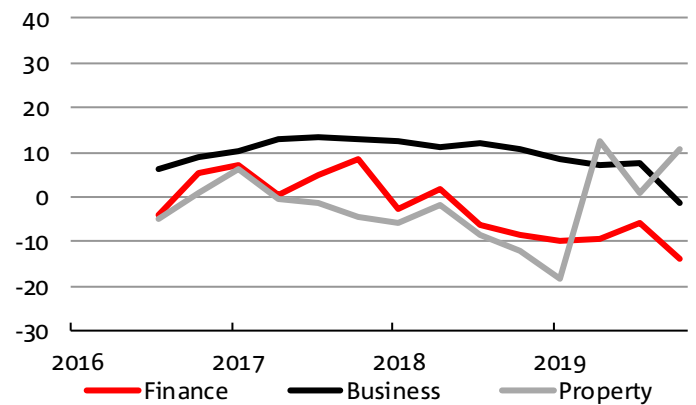
**CHART 36: BUSINESS CONFIDENCE BY INDUSTRY**



**CHART 34: BUSINESS CONDITIONS BY INDUSTRY**



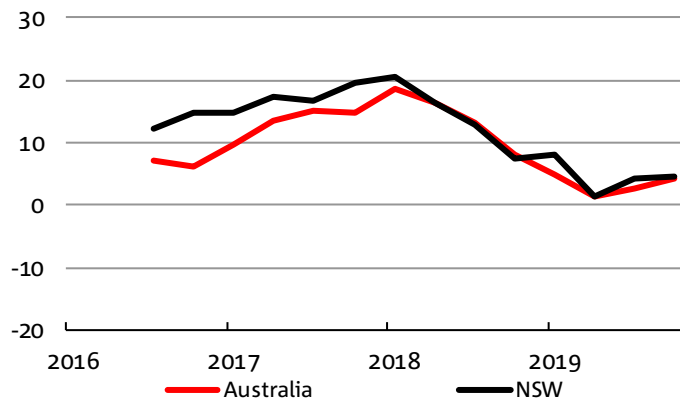
**CHART 37: BUSINESS CONFIDENCE BY INDUSTRY**



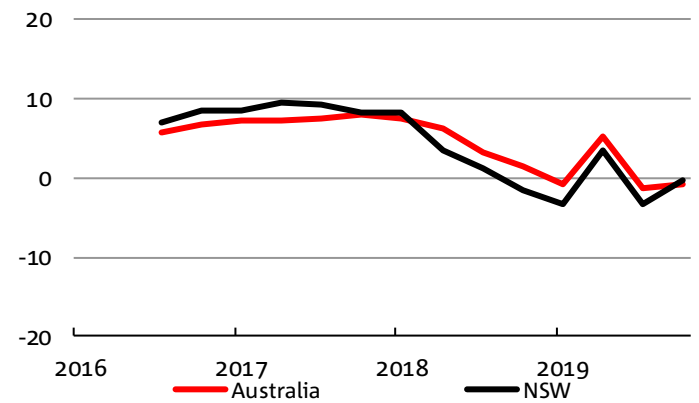


# NAB QUARTERLY BUSINESS SURVEY – FURTHER DETAILS BY STATE

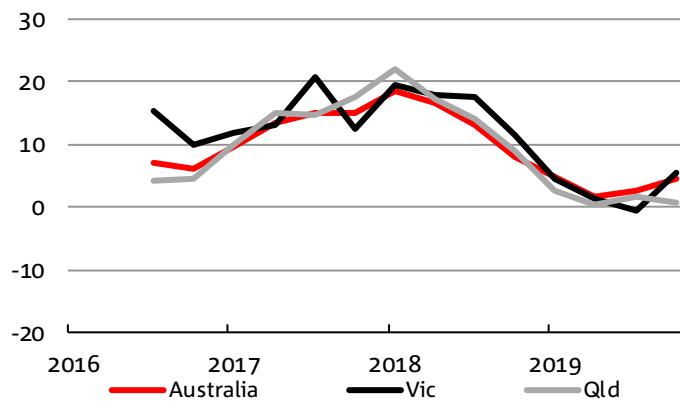
**CHART 38: BUSINESS CONDITIONS BY STATE (NET BALANCE, S.A.)**



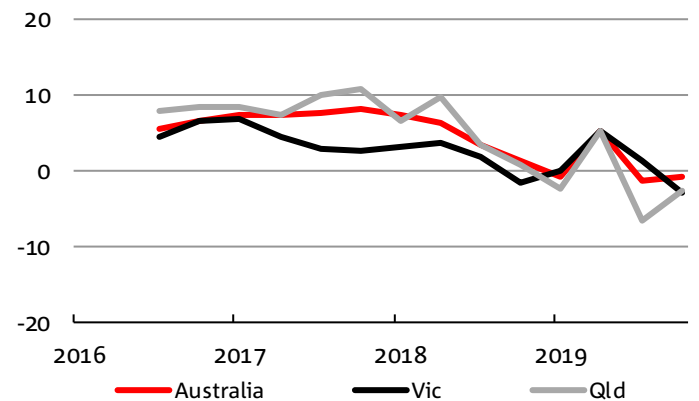
**CHART 41: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A.)**



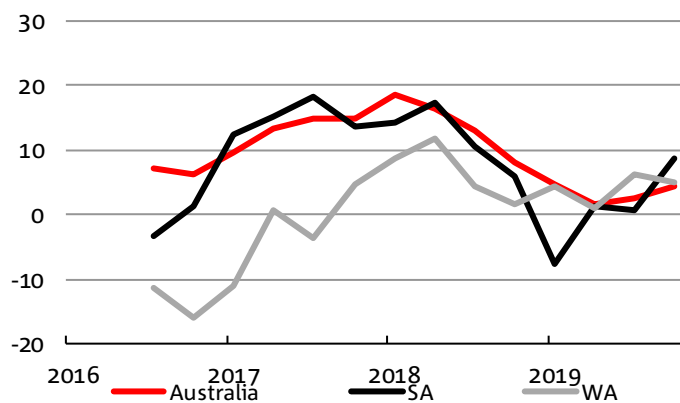
**CHART 39: BUSINESS CONDITIONS BY STATE (NET BALANCE, S.A.)**



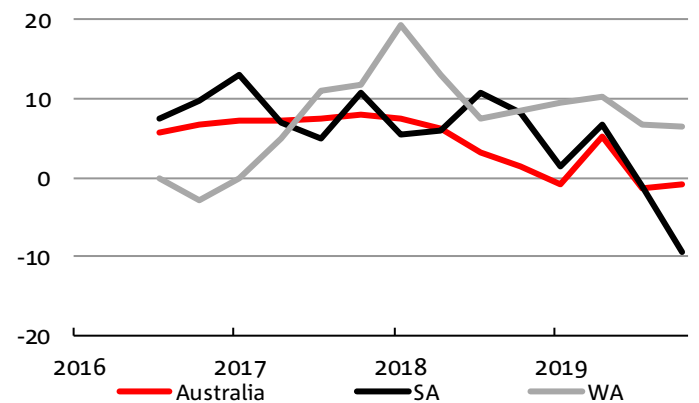
**CHART 42: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A.)**



**CHART 40: BUSINESS CONDITIONS BY STATE (NET BALANCE, S.A.)**



**CHART 43: BUSINESS CONFIDENCE BY STATE (NET BALANCE, S.A.)**



# NAB QUARTERLY BUSINESS SURVEY – DATA APPENDIX

	Quarterly					Monthly				
	2018q4	2019q1	2019q2	2019q3	2019q4	2019m8	2019m9	2019m10	2019m11	2019m12
Confidence	1	-1	5	-1	-1	1	0	2	0	-2
Conditions	8	5	1	2	4	1	2	4	4	3

	Quarterly					Monthly				
	2018q4	2019q1	2019q2	2019q3	2019q4	2019m8	2019m9	2019m10	2019m11	2019m12
Trading	12	8	2	4	6	4	5	7	6	5
Profitability	4	-1	-4	-2	3	-2	-2	1	3	1
Employment	8	7	6	5	5	2	4	5	4	4

	Quarterly <sup>(a)</sup>					Monthly				
	2019q3	2019q4	2020q1	2020q3	2020q4	2019m8	2019m9	2019m10	2019m11	2019m12
Conditions	2	4	NA	NA	NA	1	2	4	4	3
Conds. next 3m	12	10	9	NA	NA					
Conds. nxt 12m	27	24	22	20	16					
Orders	-2	0	NA	NA	NA	-4	-2	3	-2	-1
Orders next 3m	8	5	4	NA	NA					

(a) Quarter to which expectation applies. Business conditions next 12 months not seasonally adjusted.

	Quarterly <sup>(a)</sup>					Monthly				
	2019q1	2019q2	2019q3	2019q4	2020q1	2019m8	2019m9	2019m10	2019m11	2019m12
Capacity utilis.	81.9	81.3	82.6	81.4	NA	82.1	81.8	81.6	81.0	80.9
Stocks current	6	1	2	2	NA	2	3	1	3	-1
Stocks next 3m	0	-3	-4	-1	0					

(a) Quarter to which expectation applies. All data are seasonally adjusted.

	2018q4	2019q3	2019q4
Constraints on output (% of firms)*			
Sales & orders	49.3	57.5	58.5
Labour	59.9	60.0	60.0
Premises & plant	26.9	24.5	26.1
Materials	12.8	14.7	14.8

\* not s.a.

	Quarterly <sup>(a)</sup>					Monthly				
	2019q3	2019q4	2020q1	2020q3	2020q4	2019m8	2019m9	2019m10	2019m11	2019m12
Empl current	5	5	NA	NA	NA	2	4	5	4	4
Empl next 3m	6	11	7	NA	NA					
Empl nxt 12m	23	20	19	16	15					

(a) Quarter to which expectation applies. Employment conditions next 12 months not seasonally adjusted.

# NAB QUARTERLY BUSINESS SURVEY – DATA APPENDIX – STATE TABLES

	<i>Quarterly</i>					<i>Monthly</i>				
	<u>2018q4</u>	<u>2019q1</u>	<u>2019q2</u>	<u>2019q3</u>	<b>2019q4</b>	<u>2019m8</u>	<u>2019m9</u>	<b>2019m10</b>	<b>2019m11</b>	<b>2019m12</b>
Business conditions										
NSW	8	8	1	4	<b>4</b>	3	7	8	3	3
VIC	12	4	1	-1	<b>6</b>	-2	0	3	10	6
QLD	9	2	0	1	<b>1</b>	1	0	-2	0	1
SA	6	-8	1	1	<b>9</b>	0	3	5	2	-1
WA	2	4	1	6	<b>5</b>	11	-5	5	3	-3

	<i>Quarterly</i>					<i>Monthly</i>				
	<u>2018q4</u>	<u>2019q1</u>	<u>2019q2</u>	<u>2019q3</u>	<b>2019q4</b>	<u>2019m8</u>	<u>2019m9</u>	<b>2019m10</b>	<b>2019m11</b>	<b>2019m12</b>
Business confidence										
NSW	-1	-3	3	-3	<b>0</b>	1	1	2	1	-3
VIC	-2	0	5	1	<b>-3</b>	2	-3	-2	-2	-7
QLD	1	-2	5	-7	<b>-3</b>	-2	-5	1	-2	1
SA	8	1	7	-1	<b>-10</b>	0	0	5	-5	-7
WA	8	9	10	7	<b>6</b>	4	14	2	1	17

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## APPENDIX: LIST OF SERIES AVAILABLE TO SUBSCRIBERS<sup>^</sup>

### MONTHLY BUSINESS SURVEY\*

Business Confidence	Net balance
Business Conditions	Net balance
Trading Conditions	Net balance
Profitability	Net balance
Employment	Net balance
Forward Orders	Net balance
Stocks	Net balance
Exports	Net balance
Capital Expenditure (Capex)	Net balance
Cash Flow	Net balance
Labour Costs	% change at quarterly rate
Purchase Costs	% change at quarterly rate
Final Prices	% change at quarterly rate
Capacity Utilisation	Per cent
Borrowing Demand & Conditions	%; net balance

***All series available on an industry basis for:***

Mining  
Manufacturing  
Construction  
Retail trade  
Wholesale trade  
Transport / Utilities  
Finance / Property / Business Services  
Recreation / Personal Services

***All available on a state basis for:***

New South Wales  
Victoria  
Queensland  
WA  
SA/NT  
Tasmania

\*All data available in original, seasonally adjusted and trend terms.

<sup>^</sup>Subscribers also receive a copy of the Subscriber details publication which contains a variety of extra charts and tables.

# QUARTERLY BUSINESS SURVEY\*

Business Confidence  
Business Conditions (current, next 3 mth, next 12 mth)  
Trading conditions (current, next 3 mth, next 12 mth)  
Profitability (current, next 3 mth, next 12 mth)  
Employment (current, next 3 mth, next 12 mth)  
Forward orders (current, next 3 mth)  
Stocks (current, next 3 mth)  
Export orders (current, next 3 mth)  
Capital expenditure (current, next 3 mth, next 12 mth, fiscal year)  
Required rate of return on investment  
Cash flow  
Labour costs (current, next 3 mth)  
Purchase costs (current, next 3 mth)  
Final prices (current, next 3 mth)  
Capacity Utilisation  
Borrowing index (current, next 3 mth)  
  
Borrowing demand (current, next 3 mth)  
  
Constraints on output (demand, labour, materials, premises & plant, finance/working capital)

Constraints on profit (capital, demand, high AUD, low AUD, interest rates, labour, tax, wages, energy costs, other)  
Constraint on employment (demand, confidence, cashflow, suitable labour, high wages, government policy, labour not at full capacity, other, don't know)

## ***All series available on an industry basis for:***

Mining (sub-groups: Mining Extraction, Mining Services)

Manufacturing (sub-groups: food beverage & tobacco, textile clothing footwear & leather, wood & paper product, printing publishing & recorded media, petroleum coal chemical & associated products, non-metallic mineral product, metal product, machinery & equipment, other)

Construction (sub-groups: Residential Building, Non-residential Building, Other Construction, Construction Services)

Retail trade (sub-groups: Food, Personal & Household Goods, Motor Vehicle Retailing & Services, Other Retail)

Wholesale trade

Transport / Utilities

Finance / Property / Business Services (sub-groups: Finance, Insurance, Services to Finance & Insurance, Property Services, Business Services)

Recreation / Personal Services (Sub-groups: Motion picture, Radio & Television Services, Libraries Museums & the Arts), Sports & Recreation, Personal Services, Accommodation Cafes & Restaurants, Health Services, Education, Other Services)

## ***All series available on a state basis for:***

New South Wales

Victoria

Queensland,

WA

SA/NT

Tasmania

Margins (current, next 3 mth)

Overheads (current, next 3 mth)

Productivity growth

Number of employees

Hours worked

Gross Sales

Output/sales growth (current fiscal year)

Average earnings (current fiscal year)

Short term interest rate

Exporters hedged FX exposure (%)

Importers hedged FX exposure (%)

Months hedged (exporters)

Months hedged (importers)

Favourable hedge position (% of exporters)

Favourable hedge position (% of importers)

Affected vs not affected by AUD

Response to AUD (downsized, reduced, overheads, hedging, import substitution, focus on domestic market, other, don't know)

Driver of trading conditions (demand, wages/jobs, house prices, rates, exchange rate, tax/govt policy, seasonal, finance/working capital, company specific, other)

What will improve confidence (lower rates, more suitable labour, easier funding, government policy, higher demand, higher AUD, lower AUD, easier compliance, other)

\*Data available in original, seasonally adjusted and trend terms.